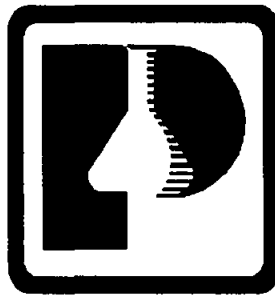


PENNINGTON BIOMEDICAL RESEARCH
FOUNDATION



2013 FINANCIAL STATEMENTS

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date **NOV 27 2013**

P&N Postlethwaite
& Netterville

A Professional Accounting Corporation

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PENNINGTON BIOMEDICAL RESEARCH FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
Pennington Biomedical Research Foundation**

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennington Biomedical Research Foundation (the Foundation, a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the financial position of the Foundation as of June 30, 2013 and 2012, and the changes in its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Portlethwaite: Wettenville

Baton Rouge, Louisiana
November 1, 2013

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 652,103	\$ 330,386
Accounts receivable	6,580	39,193
Unconditional promises to give, net	2,272,634	759,140
Prepaid expenses	10,812	19,873
Office equipment (net of accumulated depreciation of \$4,848 and \$4,364, respectively)	1,937	2,421
Investments - unrestricted	1,823,320	2,001,872
Investments - temporarily restricted, permanently restricted, and funds held-in-custody	20,184,717	18,898,116
Annuity held by rabbi trust	788,543	745,736
Beneficial interest in split-interest agreements	627,927	710,619
Total assets	<u>\$ 26,368,573</u>	<u>\$ 23,507,356</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 290,116	\$ 468,529
Accrued expenses and other liabilities	10,312	12,571
Deferred revenues and deposits	-	62,500
Retirement obligation	788,543	745,736
Funds held-in-custody	6,801,733	6,690,103
Total liabilities	<u>7,890,704</u>	<u>7,979,439</u>

NET ASSETS

Unrestricted	1,607,686	1,624,703
Unrestricted - board designated	321,764	298,189
Temporarily restricted	8,007,406	5,027,388
Permanently restricted	8,541,013	8,577,637
Total net assets	<u>18,477,869</u>	<u>15,527,917</u>
Total liabilities and net assets	<u>\$ 26,368,573</u>	<u>\$ 23,507,356</u>

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>SUPPORT AND REVENUES</u>				
Contributions	\$ 1,077,481	\$ 3,366,400	\$ 100	\$ 4,443,981
Investment income (loss) allocation	85,494	1,561,152	-	1,646,646
Management fee income	198,763	-	-	198,763
Other revenues	-	14,714	-	14,714
Split interest agreements	-	-	(36,724)	(36,724)
	<u>1,361,738</u>	<u>4,942,266</u>	<u>(36,624)</u>	<u>6,267,380</u>
Net assets released by satisfaction of program restrictions	<u>1,962,248</u>	<u>(1,962,248)</u>	<u>-</u>	<u>-</u>
	<u>3,323,986</u>	<u>2,980,018</u>	<u>(36,624)</u>	<u>6,267,380</u>
<u>EXPENSES AND LOSSES</u>				
Program services	2,288,673	-	-	2,288,673
Management and general	449,188	-	-	449,188
Development	579,567	-	-	579,567
	<u>3,317,428</u>	<u>-</u>	<u>-</u>	<u>3,317,428</u>
<u>CHANGE IN NET ASSETS</u>	6,558	2,980,018	(36,624)	2,949,952
Net assets, beginning of period	<u>1,922,892</u>	<u>5,027,388</u>	<u>8,577,637</u>	<u>15,527,917</u>
<u>NET ASSETS, END OF PERIOD</u>	<u>\$ 1,929,450</u>	<u>\$ 8,007,406</u>	<u>\$ 8,541,013</u>	<u>\$ 18,477,869</u>

The accompanying notes are an integral part of these statements.

2012

<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 849,901	\$ 1,463,292	\$ 76,025	\$ 2,389,218
127,106	(28,178)	-	98,928
195,456	-	-	195,456
-	32,040	-	32,040
-	-	68,791	68,791
<u>1,172,463</u>	<u>1,467,154</u>	<u>144,816</u>	<u>2,784,433</u>
2,294,689	(2,294,689)	-	-
<u>3,467,152</u>	<u>(827,535)</u>	<u>144,816</u>	<u>2,784,433</u>
2,698,542	-	-	2,698,542
419,179	-	-	419,179
505,360	-	-	505,360
<u>3,623,081</u>	<u>-</u>	<u>-</u>	<u>3,623,081</u>
(155,929)	(827,535)	144,816	(838,648)
<u>2,078,821</u>	<u>5,854,923</u>	<u>8,432,821</u>	<u>16,366,565</u>
<u>\$ 1,922,892</u>	<u>\$ 5,027,388</u>	<u>\$ 8,577,637</u>	<u>\$ 15,527,917</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013			
	Program Services	Management and General	Development	Total
Bank charges	\$ 360	\$ 5,729	\$ -	\$ 6,089
Business development	32,205	8,195	185,522	225,922
Depreciation	-	484	-	484
Dues and subscriptions	6,218	13,030	2,896	22,144
Insurance	-	22,569	-	22,569
Investment expense	198,763	65,014	-	263,777
Lobbying/governmental relations	-	-	-	-
Meetings and symposiums	80,796	1,038	3,008	84,842
Miscellaneous	309	2,000	-	2,309
Payroll taxes and benefits	339,288	39,859	67,988	447,135
Postage	22,400	5,863	874	29,137
Printing	26,950	5,395	-	32,345
Professional fees	260,898	43,925	-	304,823
Operations and maintenance	40,553	3,534	4,812	48,899
Research supplies and equipment	195,910	-	-	195,910
Salaries	1,002,806	216,513	310,983	1,530,302
Supplies	3,953	10,226	763	14,942
Taxes	-	169	-	169
Telephone	859	8	-	867
Training	-	3,932	2,575	6,507
Grants and donations	11,200	-	-	11,200
Travel	65,205	1,705	146	67,056
	<u>\$ 2,288,673</u>	<u>\$ 449,188</u>	<u>\$ 579,567</u>	<u>\$ 3,317,428</u>

The accompanying notes are an integral part of these statements.

2012

Program Services	Management and General	Development	Total
\$ -	\$ 8,069	\$ -	\$ 8,069
31,028	7,481	120,670	159,179
-	484	-	484
7,262	8,842	2,959	19,063
-	20,076	-	20,076
195,456	62,765	-	258,221
-	437	-	437
171,405	1,192	566	173,163
3,779	2,920	25,660	32,359
377,546	39,177	61,127	477,850
6,560	3,890	3,300	13,750
35,604	7,586	-	43,190
139,775	39,619	-	179,394
151,691	4,852	4,494	161,037
286,990	-	-	286,990
1,196,819	202,356	281,827	1,681,002
16,564	7,930	416	24,910
-	62	-	62
698	600	1,800	3,098
450	-	-	450
-	-	-	-
76,915	841	2,541	80,297
<u>\$ 2,698,542</u>	<u>\$ 419,179</u>	<u>\$ 505,360</u>	<u>\$ 3,623,081</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ 2,949,952	\$ (838,648)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	484	484
Discount on unconditional promises to give	18,479	(1,922)
Realized gains on sales of investment securities	(323,109)	(83,140)
Unrealized loss (gain) on investment securities	(836,599)	407,037
Unrealized gain on beneficial interest in split-interest agreement	(12,995)	(68,791)
Distributions received from beneficial interest in split-interest agreement	95,687	48,124
Changes in operating assets and liabilities:		
Accounts receivable	32,613	(32,460)
Unconditional promises to give	(1,531,973)	(267,598)
Prepaid expenses	9,061	(9,435)
Accounts payable	(178,413)	229,062
Accrued expenses and other liabilities	(2,259)	(2,732)
Deferred revenues and deposits	(62,500)	(89,500)
Net cash provided by (used in) operating activities	<u>158,428</u>	<u>(709,519)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales of investments	4,484,413	6,494,775
Purchases of investments	(4,432,754)	(5,795,549)
Net cash provided by investing activities	<u>51,659</u>	<u>699,226</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Change in funds held-in-custody	111,630	(10,502)
Net cash provided by (used in) financing activities	<u>111,630</u>	<u>(10,502)</u>
Net increase (decrease) in cash and cash equivalents	321,717	(20,795)
Cash and cash equivalents at beginning of period	330,386	351,181
Cash and cash equivalents at end of period	<u>\$ 652,103</u>	<u>\$ 330,386</u>

The accompanying notes are an integral part of these statements.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1) Summary of Significant Accounting Policies

Organization

The Pennington Biomedical Research Foundation (the Foundation) is a non-profit charitable organization dedicated to providing the Pennington Biomedical Research Center (the Center) with financial support derived from individual, foundation, and corporate philanthropy. The Center's mission is to discover the triggers of chronic diseases through innovative research that improves human health across the lifespan. As such, the Center has made many significant contributions to disease prevention, health, and longevity with a particular focus on diabetes, cardiovascular disease, obesity, cancer and dementia.

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Promises to give

Unconditional promises to give are recognized as revenue in the period the promise is received. Promises to give are recorded at their realizable value if they are expected to be collected in one year or at fair value if they are expected to be collected in more than one year. Based on management's assessment of collectability, an allowance for doubtful accounts is not necessary at either June 30, 2013 or 2012.

Office equipment

Office equipment is stated at historical cost. Additions, renewals, and betterments that extend the lives of assets are capitalized. Maintenance and repair expenditures are expensed as incurred. Provisions for depreciation are computed using accelerated methods over the estimated useful lives.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value based on quoted market prices. For those investments where quoted market prices are unavailable, management estimates fair value based on information provided by the fund managers or the general partners. Dividend, interest, and other investment income is recorded as an increase in unrestricted, temporarily restricted, or permanently restricted net assets depending on donor stipulations.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1) **Summary of Significant Accounting Policies (continued)**

Investments (continued)

Donated investments are recorded at their fair value at the date of receipt, which is then treated as cost. Realized gains and losses on dispositions are based on the net proceeds and the adjusted cost basis of the securities sold, using the specific identification method. Realized gains and losses are recognized in the Foundation's current operations.

Split-interest agreements

Irrevocable split-interest agreements are recorded as revenue when the trust agreements are executed. Revenue from the split-interest agreements is based on the present value of the expected cash flows to be received by the Foundation over the term of the agreements. Changes in the values of the split interest agreements are recorded in the statements of activities and classified as unrestricted, temporarily restricted or permanently restricted depending on the classification used when the contribution was originally recorded.

Deferred revenues and deposits

Deferred revenues and deposits include sponsorship revenues for various fundraising events which were received in advance of the events.

Funds held in custody

The Foundation considers all state matching funds and unexpended income from these funds to be funds held in custody. All funds held in custody are recorded in the statements of financial position at their fair values.

Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Income taxes

The Foundation has been recognized by the Internal Revenue Service as a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes pursuant to Section 501(a) of the Internal Revenue Code.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

1) **Summary of Significant Accounting Policies (continued)**

Income taxes (continued)

The Foundation accounts for income taxes in accordance with the guidance included in the Accounting Standards Codification (ASC). The Foundation recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Foundation has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. With few exceptions, the Foundation is no longer subject to examinations by tax authorities for years ending before June 30, 2010.

Statements of cash flows

For purposes of the statements of cash flows, cash and cash equivalents includes operating funds on deposit at various financial institutions.

Statements of functional expenses

The costs of providing for the various programs and other activities of the Foundation have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting benefits based on management's estimates.

Concentrations of credit risk

The Foundation's investments are secured by the Securities Investor Protection Corporation (SIPC). Any investment balances over the SIPC coverage are insured by private insurance of the investment custodian. SIPC and private insurance do not insure the quality of investments or protect against losses from fluctuating market values.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

2) **Unconditional Promises to Give**

Unconditional promises to give at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Promises to give expected to be collected in:		
Less than one year	\$ 1,266,710	\$ 383,602
One to five years	<u>1,028,665</u>	<u>379,800</u>
	2,295,375	763,402
Less discount on promises to give	<u>(22,741)</u>	<u>(4,262)</u>
Net unconditional promises to give	<u>\$ 2,272,634</u>	<u>\$ 759,140</u>

The rates used in discounting unconditional promises to give were 1.41% and 0.72% as of June 30, 2013 and 2012, respectively.

3) **Split-Interest Agreements**

The Foundation is the irrevocable beneficiary of two split-interest agreements, related to a charitable lead trust and a charitable remainder trust, under various terms and conditions. The funds are held and administered by unrelated third party trustees. The Foundation's interests in the funds held by the trustees are measured at present value and are recorded at fair value in the statements of financial position as beneficial interests in split-interest agreements.

For the charitable lead trust, the discount rate used in the present value calculation for future payments is the prevailing rate of interest for similar types of high quality, fixed income investments. The discount rates used for 2013 and 2012 4.42% and 3.78%, respectively and the remaining term of the agreement is approximately 16 years at June 30, 2013.

For the charitable remainder trust, the donor is the sole income beneficiary for life, with the Foundation receiving the principal amount of the trust upon the donor's death. The discount rate used in the present value calculation for the future payment was the ten year treasury-bond rate at June 30, 2013 and 2012. The discount rates used for 2013 and 2012 were 2.50% and 1.67%, respectively, and the estimated remaining term of the agreement was approximately 10 years at June 30, 2013.

Income statement adjustments recognized for these split-interest agreements were a negative adjustment of \$36,724 for the year ended June 30, 2013 and a positive adjustment of \$68,791 for the year ended June 30, 2012. As of June 30, 2013 and 2012, the fair value of the beneficial interests was \$627,927 and \$710,619, respectively. The Foundation received distributions from the charitable lead trust of \$45,969 and \$48,124 for the years ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, trust distributions are expected to be received as follows:

Less than one year	\$ 45,628
One to five years	240,743
More than five years	<u>506,253</u>
	792,624
Less: Discount to net present value	<u>(164,697)</u>
Beneficial interest in split-interest agreements	<u>\$ 627,927</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

4) **Investments**

Investments in debt and equity securities with readily determinable fair values are stated at their estimated fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for discussion of fair value measurements. The asset allocation of the Foundation's portfolio involves exposure to a diverse set of markets. The investments within these markets involve various risks such as interest rate risk, market risk, and credit risk. The Foundation understands that the value of its investments may, from time to time, fluctuate substantially as a result of these risks.

The investments of the Endowed Professorship Programs and the Endowed Chairs for Eminent Scholars Programs are maintained and managed in brokerage accounts in compliance with the Board of Regent's investment policy.

Investments are stated at fair value and consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Equities	\$ 8,434,577	\$ 7,509,550
Domestic fixed income securities	8,270,833	9,274,480
Hedge fund of funds	2,737,713	2,489,327
Real estate investment trust	766,727	694,712
Common stock	-	3,096
Money market funds	<u>1,798,187</u>	<u>928,823</u>
	<u>\$ 22,008,037</u>	<u>\$ 20,899,988</u>

Investment earnings are allocated to unrestricted, temporarily restricted and permanently restricted net assets based on donor restrictions for certain permanently endowed funds and policies approved by the Board of Directors for certain non-endowed funds. The Foundation allocates investment activity to the pooled endowed and pooled non-endowed investments based on the average daily balance of each project. A spending allocation approved by the Board of Directors is made each year to the funds.

Investment earnings were comprised of the following for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 39	\$ -
Dividends	487,027	422,825
Realized gains on sales of investments	322,981	83,140
Unrealized gains (losses) on investments	<u>836,599</u>	<u>(407,037)</u>
	<u>\$ 1,646,646</u>	<u>\$ 98,928</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5) **Fair Value of Financial Instruments**

In accordance with the *Fair Value Measurements and Disclosure* topic of FASB ASC, disclosure of fair value information about financial instruments, whether or not recognized in the statements of financial position, is required. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments; therefore, the aggregate fair value amounts presented do not represent the underlying value of the Foundation.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

The *Fair Value Measurements and Disclosures* topic of the FASB ASC provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under the framework are described as follows:

- Level 1 - inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5) **Fair Value of Financial Instruments (continued)**

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Foundation's investments in securities with readily determinable fair values are recorded at fair value based on quoted market prices. For those investments where quoted prices are unavailable, management estimates fair value based on quoted prices for similar instruments with consideration of actively quoted interest rates, credit ratings and spreads, prepayment models, and collateral data. The Foundation utilizes several externally managed fund of funds for private equity, venture capital, and hedge funds, and with these types of investments, quoted prices are often unavailable, and pricing inputs are generally unobservable. The Foundation relies on the valuation procedures and methodologies of the external managers hired specifically to invest in such securities or in strategies which employ such securities. The application of those valuation procedures and methodologies are born out in each manager's compliant annual audited financial statements and were monitored through the Foundation's reporting period ended June 30, 2013.

Level 3 Valuation Techniques

Although direct valuation techniques and methodologies for Level 3 assets are not completed internally, Foundation staff and the Foundation's investment advisor conduct ongoing monitoring and review of managers to ensure that reporting and valuation techniques are in accordance with industry standards and best practices. The investment advisor seeks to identify managers with experienced personnel and sound investment philosophy. Managers must demonstrate strength in key tenets such as conviction, consistency, pragmatism, investment culture, risk control, and active return. Capital statements, audit reports, current and past performance, and pertinent news regarding changes in management are scrutinized as an integral part of the due diligence process prior to hiring a manager. In addition, Service Organization Control Reports for fund administrator internal controls are obtained and reviewed. These reports are prepared by external independent firms and provide assurance concerning the suitability of the design and operating effectiveness of the administrators' controls and control objectives. These same elements are monitored on an on-going basis, as a matter of regular business practice, following the hiring of a manager. Level 3 asset types for which this due diligence process and focused monitoring are applied internally consist of investments in hedge fund of funds.

The valuation process conducted internally for Level 3 assets categorized as Beneficial Interests in Split-Interest Agreements primarily entails a calculation of the present value of proceeds expected to be received in accordance with the terms of the agreement. Each agreement is reviewed by management to determine the amount of any contractual and/or estimated payments to income beneficiaries using available actuarial data. The Foundation uses the Moody's Aa Index for corporate bonds to calculate net present value. This rate is commonly used when determining actuarial liabilities for other types of plans and investments.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5) **Fair Value of Financial Instruments (continued)**

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Hedge fund of funds by geographic concentration:			
United States	\$ -	\$ -	\$ 1,753,073
Europe	-	-	561,627
Asia	-	-	258,109
Emerging markets	-	-	57,358
Other Americas	-	-	59,748
Other	-	-	47,798
Money market	1,798,187	-	-
Mutual funds:			
Large cap equity - growth	853,146	-	-
Large cap equity - blend	2,707,364	-	-
Mid cap equity - growth	49,186	-	-
Mid cap equity - blend	1,126,887	-	-
Small cap equity - growth	615,352	-	-
Small cap equity - blend	49,896	-	-
Small cap equity - value	654,720	-	-
Developing international large cap equity - growth	631,314	-	-
Developing international large cap equity - blend	1,065,909	-	-
Developing international large cap equity - value	51,232	-	-
Emerging markets equity - blend	629,571	-	-
Real estate investment trust - domestic	26,911	-	-
Real estate investment trust - global	739,816	-	-
Fixed income by credit quality rating:			
AAA	5,293,334	-	-
AA	827,083	-	-
A	661,666	-	-
BBB	744,375	-	-
BB	248,125	-	-
B	248,125	-	-
CCC	165,417	-	-
CC	82,708	-	-
Total investments	19,270,324	-	2,737,713
Beneficial interest in split interest agreements	538,464	-	89,463
Total	<u>\$ 19,808,788</u>	<u>\$ -</u>	<u>\$ 2,827,176</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5) **Fair Value of Financial Instruments** (continued)

The following table sets forth by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Common stock	\$ 3,096	\$ -	\$ -
Hedge fund of funds by geographic concentration:			
United States	-	-	1,694,749
Europe	-	-	511,096
Asia	-	-	122,084
Emerging markets	-	-	80,699
Other Americas	-	-	43,453
Other	-	-	37,246
Money market	928,823	-	-
Mutual funds:			
Large cap equity - growth	792,760	-	-
Large cap equity - blend	2,312,030	-	-
Mid cap equity - blend	1,004,141	-	-
Small cap equity - growth	547,971	-	-
Small cap equity - blend	91,456	-	-
Small cap equity - value	500,111	-	-
Developing international large cap equity - growth	524,437	-	-
Developing international large cap equity - blend	1,058,272	-	-
Developing international large cap equity - value	103,578	-	-
Emerging markets equity - blend	574,794	-	-
Real estate investment trust - global	694,712	-	-
Fixed income by credit quality rating:			
AAA	6,677,625	-	-
AA	463,724	-	-
A	741,958	-	-
BBB	834,703	-	-
BB	185,490	-	-
B	185,490	-	-
CCC	92,745	-	-
CC	92,745	-	-
Total investments	18,410,661	-	2,489,327
Beneficial interest in split interest agreements	668,397	-	42,222
Total	<u>\$ 19,079,058</u>	<u>\$ -</u>	<u>\$ 2,531,549</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

5) **Fair Value of Financial Instruments (continued)**

The following table presents the changes in fair value, in Level 3 instruments that are measured at fair value on a recurring basis for the years ended June 30, 2013 and 2012:

	<u>Hedge Funds of Funds</u>	<u>Split-interest Agreements</u>	<u>Total</u>
Balance - July 1, 2011	\$ 2,736,135	\$ 90,569	\$ 2,826,704
Purchases	-	38,412	38,412
Sales	(153,954)	(90,569)	(244,523)
Unrealized gains (losses)	(76,713)	460	(76,253)
Realized gains (losses)	(16,141)	3,350	(12,791)
Balance - June 30, 2012	2,489,327	42,222	2,531,549
Purchases	76,037	83,495	159,532
Sales	(59,457)	(35,035)	(94,492)
Unrealized gains	232,622	3,224	235,846
Realized losses	(816)	(4,443)	(5,259)
Balance - June 30, 2013	<u>\$ 2,737,713</u>	<u>\$ 89,463</u>	<u>\$ 2,827,176</u>

Realized and unrealized earnings and/or losses are included in the investment income (loss) allocations in the consolidated statements of activities.

6) **Funds held in Custody and Permanently Restricted Net Assets**

Included in investments at June 30, 2013 and 2012, were funds held-in-custody with the Foundation's investment custodian, which represent the fair value of the matching funds received from the State of Louisiana and earnings allocations available for expenditure. Investments also include private donations which are permanently restricted by donors.

The Endowed Chairs for Eminent Scholars Program requires a \$600,000 private donation and a matching \$400,000 gift from the State of Louisiana, making a total endowment of \$1,000,000 per program. The Eminent Scholars Program requires a \$60,000 private donation and a \$40,000 matching gift from the State of Louisiana, making a total endowment of \$100,000. Total funds held in custody were as follows:

	<u>2013</u>	<u>2012</u>
State Matching Funds	\$ 6,801,733	\$ 6,678,253
Other	-	11,850
	<u>\$ 6,801,733</u>	<u>\$ 6,690,103</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

6) **Funds Held-in-Custody and Permanently Restricted Net Assets (continued)**

Permanently restricted net assets were as follows at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Private donations	\$ 7,913,086	\$ 7,867,018
Beneficial interest in split interest agreements	<u>627,927</u>	<u>710,619</u>
	<u>\$ 8,541,013</u>	<u>\$ 8,577,637</u>

7) **Unrestricted Net Assets-Board Designated**

The Foundation maintains a Board Designated unrestricted fund balance of \$321,764 and \$298,189 as of June 30, 2013 and 2012 respectively, for use of future Center projects. These funds will remain within the Foundation and will be distributed to or on behalf of the Center at various times in the near future.

8) **Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for specific nutritional research programs and other nutritional research programs being conducted at the Pennington Biomedical Research Center. Temporarily restricted net assets consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Endowed Chairs & Professorships	\$ 2,324,294	\$ 1,599,617
Specific Research Projects	3,990,127	1,511,641
Faculty Research Support	<u>1,692,985</u>	<u>1,916,130</u>
Total Temporarily Restricted Net Assets	<u>\$ 8,007,406</u>	<u>\$ 5,027,388</u>

9) **Net Assets Released From Restrictions**

Net assets released from donor restrictions for incurring program related expenses satisfying the restricted purposes for the years ended June 30, 2013 and 2012, were as follows:

	<u>2013</u>	<u>2012</u>
Endowed Chairs & Professorships	\$ 818,800	\$ 853,098
Specific Research Projects	818,433	970,047
Faculty Research Support	<u>325,015</u>	<u>471,544</u>
Total Restrictions Released	<u>\$ 1,962,248</u>	<u>\$ 2,294,689</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

10) Endowed Net Assets

The primary objective of the Foundation's investment and spending policies for its endowed assets is to be a source of capital for the current and future support of the Center. Implicit in this objective is the financial goal of preserving and enhancing the inflation-adjusted earning and purchasing power of assets. The long-term investment objective of the endowed portfolio is to attain an average annual real total return of at least 5.0% over time. It is also the intent of the policy to earn the highest rate of return over the long term, consistent with prudent funds management, and to provide adequate distribution of income to the Center, within policy and budget guidelines.

Certain endowed funds are provided by the State as a match to qualifying private endowed contributions and are managed under agreement with the Louisiana State University System for its benefit. These endowed assets are further subject to the investment and spending policies established by the Louisiana Board of Regents, which has statutory authority to administer the matching funds program.

The net asset composition by type of fund was as follows as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment	\$ <u>321,764</u>	\$ <u>2,358,608</u>	\$ <u>8,541,013</u>	\$ <u>11,221,385</u>

The net asset composition by type of fund was as follows as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment	\$ <u>298,189</u>	\$ <u>1,616,257</u>	\$ <u>8,577,637</u>	\$ <u>10,492,083</u>

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

10) **Endowed Net Assets** (continued)

Changes in endowment net assets were as follows as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2011	\$ 552,048	\$ 2,497,533	\$ 8,432,821	\$ 11,482,402
Investment return:				
Investment income	-	417,069	-	417,069
Net appreciation (depreciation)	-	(445,247)	68,791	(376,456)
Contributions	150,000	-	76,025	226,025
Appropriation of endowment assets for expenditure	(403,859)	(853,098)	-	(1,256,957)
Endowment net assets, June 30, 2012	298,189	1,616,257	8,577,637	10,492,083
Investment return:				
Investment income	-	705,322	-	705,322
Net appreciation (depreciation)	-	855,829	(36,724)	819,105
Contributions	350,000	-	100	350,100
Appropriation of endowment assets for expenditure	(326,425)	(818,800)	-	(1,145,225)
Endowment net assets, June 30, 2013	<u>\$ 321,764</u>	<u>\$ 2,358,608</u>	<u>\$ 8,541,013</u>	<u>\$ 11,221,385</u>

A spending rate is determined by the Foundation's Board of Directors on an annual basis, with consideration given to the market conditions, the spending levels of peer institutions and the level of real return after spending measured over a rolling five year time period. The spending rate approved by the Board is applied to the five year average market value of the investment pool of endowed assets. The objective is to provide relatively stable spending allocations. The net spending rates approved by the Board of Directors for the June 30, 2013 and 2012 allocations were 4.75% and 4.1%, respectively. In accordance with the Board's policies, no portion of the corpus (original amount of donation) of the endowed assets shall be allocated for program spending.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
BATON ROUGE, LOUISIANA

NOTES TO FINANCIAL STATEMENTS

10) **Endowed Net Assets (continued)**

The Louisiana Board of Regents spending policy dictates that no portion of the corpus, as defined by the Regents, is to be allocated for spending.

Guided by the philosophy that asset allocation is the most significant determinant of long-term investment return, the Foundation's Board of Directors establishes asset allocation targets for its pool of endowed assets in order to achieve the total return objectives of its investment policy within acceptable risk levels. Target ranges are established within asset classes, and investments are diversified in order to minimize the risk of large losses.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level the donor or the Board of Regents policy requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of June 30, 2013 or June 30, 2012. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in temporarily restricted net assets.

11) **Retirement Contributions**

The Foundation makes an annual contribution to a 403(b) retirement plan for eligible employees, and effective, January 1, 2010, the Plan adopted safe harbor provisions. Contributions for the years ended June 30, 2013 and 2012 totaled approximately \$27,000 and \$25,000, respectively.

12) **Related Party Transactions**

The Pennington Biomedical Research Foundation provides accounting services and administrative support to the Pennington Medical Foundation (PMF). For the years ended June 30, 2013 and 2012, PMF paid the Foundation \$50,000 and \$54,540 for these services, respectively. The amounts owed from PMF at June 30, 2013 and 2012 for these types of services and other miscellaneous reimbursements were \$4,261 and \$4,682, respectively.

The Pennington Biomedical Research Foundation maintains a memorandum of understanding with PMF for operating the C.B. Pennington Jr. Residence Center. Effective July 1, 2011, PMF transferred rental operations of the C.B. Pennington Jr. Residence Center to the Pennington Biomedical Research Center. After this transfer, the Foundation continued to employ one individual working in the Residence Center and those costs were reimbursed to the Foundation by PMF. For the years ended June 30, 2013 and 2012, the amount of funds remitted to the Foundation by PMF was \$18,003 and \$25,147, respectively. The balance owed to the Foundation from PMF at June 30, 2013 and 2012 for these costs was \$0 and \$8,921, respectively.

PENNINGTON BIOMEDICAL RESEARCH FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

12) **Related Party Transactions (continued)**

As part of its mission, the Foundation also has certain transactions in the normal course of operations with the Pennington Biomedical Research Center. The transactions consist of research support for salaries, research equipment, and supplies, which are processed by the Center. In addition, the Foundation reimburses the Center for certain costs pertaining to Foundation operations. For the years ended June 30, 2013 and 2012, these costs totaled \$1,813,650 and \$2,146,666, respectively. The amount owed to the Center at June 30, 2013 and 2012 for these types of expenses was \$254,248 and \$364,185, respectively.

13) **Commitments**

In 1999, the Foundation purchased an annuity to fund the retirement obligation of a former Executive Director of the Center. The annuity's value and corresponding retirement obligation were approximately \$789,000 and \$746,000 at June 30, 2013 and at June 30, 2012, respectively.

In May 2006, the Foundation committed up to \$100,000 per year to the Pennington Biomedical Research Center for faculty support for a former Executive Director of the Center. This level of annual support began in late 2009 upon his resignation and re-appointment to a full-time research faculty position at the Center.

14) **Subsequent Events**

Subsequent to June 30, 2013, the Foundation received a donation in the amount of \$4,705,600. The donation, which is to be used for specific purposes as outlined in the donation agreement, is scheduled to be paid to the Foundation in varying installments through December 31, 2017.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 1, 2013, and determined that no other events occurred that require additional disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.